

Message Text

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PAGE 01 CARACA 02934 151748Z

53

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SUBJ: PRESIDENT PEREZ COMMENTS ON OIL NATIONALIZATION BILL
IN HIS FIRST ANNUAL MESSAGE TO CONGRESS

REF: (A) CARACAS 2715; (B) CARACAS 2874

1. BEGIN SUMMARY. PRESIDENT CARLOS ANDRES PEREZ DELIVERED HIS ANNUAL MESSAGE TO A JOINT SESSION OF CONGRESS ON MARCH 12, THE ANNIVERSARY OF HIS FIRST YEAR IN OFFICE. IN HIS SPEECH HE CONCENTRATED HEAVILY ON THE DRAFT OIL NATIONALIZATION BILL DELIVERED TO CONGRESS MARCH 11, AND EXPLAINED AND DEFENDED THE MODIFICATIONS INCLUDED BY THE ADMINISTRATION IN THE ORIGINAL DRAFT PREPARED BY THE NATIONAL REVERSION COMMISSION. HE TOOK PERSONAL RESPONSIBILITY FOR THE MIDIFICATIONS, AND JUSTIFIED THEM ON THE BASIS THAT VENEZUELA CANNOT AFFORD TO ADOPT AN EXTREME NATIONALISTIC STANCE THAT WOULD JEOPARDIZE THE VITAL OIL INDUSTRY AND ADVERSELY AFFECT THE ECONOMY. HE CALLED FOR BROAD, IF NOT TOTAL, SUPPORT FROM CONGRESS FOR HIS OIL NATIONALIZATION POLICY. END SUMMARY.

2. PRESIDENT PEREZ DEVOTED A SUBSTANTIAL PORTION OF HIS REMARKS TO THE OIL NATIONALIZATION DRAFT BILL NEAR THE BEGINNING OF HIS TWO-
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PAGE 02 CARACA 02934 151748Z

HOOR AND FORTY-MINUTE ADDRESS MARCH 12, DURING THE PRESENTATION OF HI

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FIRST ANNUAL REPORT TO CONGRESS. DESCRIBING OIL NATIONALIZATION AS THE MOST IMPORTANT AND TRANSCENDENTAL DECISION VENEZUELA HAS TAKEN SINCE LIBERATION, PEREZ CALLED FOR A BROAD CONGRESSIONAL CONSENSUS OF SUPPORT FOR THE MEASURE AND A VOTE OF CONFIDENCE. HE PRAISED THE WORK OF THE REVERSION COMMISSION AND SAID THE RECOMMENDATIONS IT MADE WERE SERIOUS AND WELL THOUGHT OUT REGARDING THE NATIONAL INTEREST. THUS, EXCEPT IN ONE CASE, MODIFICATIONS MADE BY HIS ADMINISTRATION TO THE COMMISSION'S DRAFT BILL WERE INTENDED ONLY TO FILL GAPS IN A PIONEERING EFFORT.

3. PEREZ THEN IMMEDIATELY LAUNCHED INTO A VIGOROUS DEFENSE OF HIS ONE FUNDAMENTAL CHANGE, WHICH WAS INSERTED INTO THE DRAFT BILL AS ARTICLE FIVE, BY STATING THAT HE ASSUMED PERSONAL RESPONSIBILITY FOR IT. HE ACKNOWLEDGED THAT IT WOULD CREATE HEATED POLITICAL CONTROVERSY. ARTICLE FIVE, AS ALSO EXPLAINED IN REF B, WOULD PERMIT THE GOV AFTER NATIONALIZATION TO ENTER INTO PARTNERSHIP AGREEMENTS OR CONTRACTS WITH PRIVATE ENTITIES FOR CERTAIN OIL INDUSTRY OPERATIONS. PEREZ SAID THAT HE COULD MAKE NO CONCESSIONS ON FUNDAMENTAL PRINCIPLE OF HIS MODIFICATION, AND HAD EXPLAINED HIS GOVERNMENT'S VIEWS ON THIS MATTER TO THE POLITICAL PARTIES. THEN HE ADDED THAT IT WOULD BE POSSIBLE DURING THE CONGRESSIONAL DELIBERATIONS

TO ARRIVE AT SOME "FORMULA" OTHER THAN THAT PROPOSED IN HIS DRAFT BILL THAT WOULD ACHIEVE THE INTENDED PURPOSE OF ARTICLE FIVE. PEREZ APPARENTLY WAS INDICATING THAT HE WAS NOT RIGIDLY COMMITTED TO THE WORDING OF THE ARTICLE, AND THAT CONGRESS MIGHT MODIFY IT, BUT NOT TO THE POINT OF RESTRICTING THE GOVERNMENT'S RIGHT TO NEGOTIATE AGREEMENTS WITH THE OIL COMPANIES.

4. CITING ARTICLE 126 OF THE 1961 VENEZUELAN CONSTITUTION (WHICH PROHIBITS THE GRANTING OF NEW PETROLEUM CONCESSIONS WITHOUT AUTHORIZATION OF A JOINT SESSION OF CONGRESS, OR FOR THAT MATTER ANY CONTRACT INVOLVING THE NATIONAL INTEREST), PEREZ NOTED THAT NO ADMINISTRATION HAD SOUGHT AUTHORIZATION FOR GRANTING NEW OIL CONCESSIONS DURING THE INTERVENING FOURTEEN YEARS. HOWEVER, HE ALSO NOTED THAT EXTREME POSITIONS MUST ON OCCASION BE TEMPERED, AND REFERRED TO THE FORMER COPEI GOVERNMENT'S SUCCESSFUL PETITION TO CONGRESS TO APPROVE THE GRANTING OF SERVICE CONTRACTS FOR THE EXPLORATION OF NON-CONCESSION AREAS IN THE SOUTHERN AREA

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PAGE 03 CARACA 02934 151748Z

OF LAKE MARACAIBO. PRESIDENT PEREZ RECALLED THAT THE MAJORITY OF CONGRESS WHO SUPPORTED THE SERVICE CONTRACT PROGRAM WERE ACCUSED OF NOT DEFENDING THE NATION'S INTEREST AND OF GRANTING CONCESSIONS IN DISGUISE. SERVICE CONTRACT ARRANGEMENTS, HE SAID, ENABLED VENEZUELA TO LEARN THE TRUTH (ABOUT THE APPARENT LACK OF MAJOR OIL RESERVES IN THE SOUTH LAKE). IT WAS THE PRIVATE CONTRACTORS THAT LOST MILLIONS OF DOLLARS, WHILE THE NATION RISKED NOTHING. PRESIDENT PEREZ WAS CLEARLY IMPLYING THAT THE PREVIOUS GOVERNMENT, LED BY THE PRESENT

OPPOSITION PARTY, HAD SET A PRECEDENT FOR HIS NATIONALIZATION BILL MODIFICATION. PEREZ EMPHASIZED THAT VENEZUELA CANNOT INDULGE IN STERILE EXTREMISM REGARDING POLICIES THAT AFFECT PETROLEUM, THE NUCLEUS OF THE ECONOMY AND CORE OF THE FUTURE.

5. THE PRESIDENT THEN WENT ON TO REMIND THAT PETROLEUM DECISIONS HAD NOT BEEN IN THE HANDS OF THE NATION DURING THE FIFTEEN YEARS OF DEMOCRATIC GOVERNMENT. HE PREDICTED THAT THE COUNTRY WILL HAVE TO FACE MANY PROBLEMS AFTER NATIONALIZATION, LISTING LIMITED EXPLO- RATION ACTIVITY, UNBALANCED PRODUCTION IN FAVOR OF HIGHER VALUE OIL, LOW-PRODUCTIVITY REFINING, NEGLECT OF CERTAIN OIL FIELDS, ETC. YET HE BELIEVES THE GOV WILL BE FULLY CAPABLE OF MANAGING THE INDUSTRY AFTER NATIONALIZATION. IT WILL MAINTAIN THE CONTINUITY OF OPERATIONS OF THE "TRANSNATIONAL COMPANIES." PROGRAMS FOR PRO- DUCION AND RE-EVALUATION OF THE ORINOCO TAR BELT.

6. PEREZ LISTED TECHNOLOGICAL DEPENDENCE AS THE MOST DRAMATIC AND DIFFICULT PROBLEM VENEZUELA WILL FACE AFTER NATIONALIZATION. IT WILL BE THE DETERMINING FACTOR FOR THE REAL LONG-TERM SUCCESS OF THE NATIONALIZATION EFFORT. HUMAN RESOURCES, INCLUDING "VALUABLE FOREIGN TECHNICAL CADRES WHO IDENTIFY THEMSELVES WITH VENEZUELA'S VIEWS AND INTERESTS, "FORM THE CAPITAL THAT THE STATE WILL "STIMULATE "

IN ORDER TO ACHIEVE TECHNICAL AND ECONOMIC PROGRESS.

7. FURTHER ON HE SAID THAT IT IS ABSOLUTELY ESSENTIAL TO CUT BACK ON OIL AND GAS PRODUCTION BY RATIONALIZING EXPLOITATION. OIL POLICY WILL FALL WITHIN THE FRAMEWORK OF A NATIONAL ENERGY POLICY ,

AND THE COUNTRY WILL MAKE EVERY EFFORT TO INCREASE DOMESTIC INDUSTRIALIZATION OF HYDROCARBONS. OTHER SECTIONS IN THE SPEECH INCLUDE PLANS FOR THE PETROCHEMICAL INDUSTRY, AMENDMENT OF THE MINING LAW TO TIGHTEN UP CONTROL OVER NON-METALIC MINERAL RE- UNCLASSIFIED

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PAGE 04 CARACA 02934 151748Z

SOURCES, AND PROGRAMS RELATED TO USE OF GAS FOR INDUSTRIAL PURPOSES, WHICH CAN BE REVIEWED IN GREATER DETAIL BY THE DEPARTMENT UPON RECEIPT OF THE TEXT OF THE PRESIDENT'S ANNUAL REVIEW.

8. AS STATED IN REF A, PRESIDENT PEREZ HAS MADE THE OIL NATIONALI- ZATION BILL MORE FLEXIBLE THAN THE VERSION PREPARED BY HIS REVERSION COMMISSION, BUT IT IS NOT AS FLEXIBLE AS COULD HAVE BEEN DESIRED. SINCE HE HAS ADVISED CONGRESS THAT HE WILL INSIST ON HIS AMENDMENTS BEING RETAINED SUBSTANTIALY AS THEY ARE, IT MAY BE THE BEST THAT CAN BE EXPECTED AT THIS STAGE. FURTHER ANALYSIS WILL FOLLOW.

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